

HAWAI'I STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

<u>ADMINISTRATIVE</u> APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 12 - 34 A	Date of Receipt:
To be assigned by Agency	

APPLICANT PROFILE

Project Title:Establishment of 24-station chronic renal dialysis facility
Project Address: 4380 Lawehana Street, Suites #101-111, Honolulu, Hawaii 96815
Applicant Facility/Organization: <u>Liberty Dialysis—Hawaii, LLC</u>
Name of CEO or equivalent: Mark Caputo
Title: Manager
Address: 7650 SE 27 th St., Suite 200, Mercer Island, Washington 98040
Phone Number: (206) 816-6506 Fax Number: (206) 816-6556
Contact Person for this Application:
Title: Regional Vice President
Address: 2226 Liliha Street, Suite 226, Honolulu, Hawaii 96817
Phone Number:(808) 585-4600 Fax Number:(808) 585-4601
CERTIFICATION BY APPLICANT
I hereby attest that I reviewed the application and have knowledge of the content and the information contained herein. I declare that the project described and each statement amount and supporting documentation included is true and correct to the best of my knowledge and belief.
Signature Date
Jane Gibbons Regional Vice President
Name (please type or print) Title (please type or print)

1.	TYPE OF ORGANIZATION: (Please check all applicable)			
	Public Private X Non-profit For-profit X Individual Corporation Partnership Limited Liability Corporation (LLC) Limited Liability Partnership (LLP) Other:			
2.	PROJECT LOCATION INFORMATION			
	A. Primary Service Area(s) of Project: (please check all applicable) Statewide:			
	O`ahu-wide: Honolulu: Windward O`ahu: West O`ahu: Maui County: Kaua`i County: Hawai`i County:			
3.	DOCUMENTATION (Please attach the following to your application form):			
	 A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent) 			
	See Attachment 1.			
	B. A listing of all other permits or approvals from other government bodies (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.)			
	Building Permit from the City & County of Honolulu Certificate of Occupancy from the City & County of Honolulu Fire Marshall's Approval from the City & County of Honolulu Fire Department Medicare certification from CMS			
	C. Your governing body: list by names, titles and address/phone numbers			
	See Attachment 2.			
	 If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following: 			
	 Articles of Incorporation See CON application filed November 13, 2012 By-Laws Not Applicable Partnership Agreements See CON application filed November 13, 2012 Tax Key Number (project's location): 990710290000 			

TYPE OF PROJECT. This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Service	Change in Beds
Inpatient Facility			,		
Outpatient Facility				Х	
Private Practice					

5. BED CHANGES. Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

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Type of Bed	Current Bed	Proposed Beds for	Total Combined Beds
	Total	your Project	if your Project is
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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List	All Project Costs:	AMOUNT:
1.	Land Acquisition	
2.	Construction Contract	\$1,270,000
3.	Fixed Equipment	\$ 200.000_
4.	Movable Equipment	\$ 425,000
5.	Financing Costs	
6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (site lease)	\$1,426,993
7.	Other:	
D Com	TOTAL PROJECT COST:	<u>\$3,321,993</u>
1.	Cash	<u>\$1,895.000</u> _
2.	State Appropriations	
3.	Other Grants	
4.	Fund Drive	
5.	Debt	
6.	Other: Fair market value of leased premises to be paid over the term of the lease	<u>\$1,426,933</u>
	TOTAL SOURCE OF FUNDS:	<u>\$3,321,993</u>

7. CHANGE OF SERVICE: If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

Establishment of 24-station chronic renal dialysis service.	
Reference HAR § 11-186-5(4)(A).	

- 8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:
 - a) Date of site control for the proposed project

November 16, 2012

 b) Dates by which other government approvals/permits will be applied for and received

Building Permit applied for: March 2013 Building Permit received: June 2013

c) Dates by which financing is assured for the project

Not applicable

d) Date construction will commence

July 2013

e) Length of construction period

5 months

f) Date of completion of the project

December 2013

g) Date of commencement of operation

February 2014

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

- 9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.
 - a) Relationship to the State of Hawai'i Health Services and Facilities Plan.
 - b) Need and Accessibility
 - c) Quality of Service/Care
 - d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
 - e) Relationship to the existing health care system
 - f) Availability of Resources

EXECUTIVE SUMMARY

Liberty Dialysis—Hawaii, LLC ("LDH") seeks approval to establish a 24-station dialysis center at 4380 Lawehana Street in west Honolulu (zip code 96815) (the "Proposed Project"). A site map showing the proposed location is included in Attachment 3.

LDH's dialysis center on the St. Francis Health Systems ("SFHS") east campus ("SFHS-East") is composed of the Siemsen Clinic, the Renal Annex and the Sullivan Clinic. The Renal Annex is located in the Mother Marianne Wing of the old hospital and has not been accessible since the closure of Hawaii Medical Center ("HMC") East in December 2011. The SFHS-East dialysis center is due for a Medicare certification survey shortly, and LDH expects the stations in the Renal Annex to be de-certified, bringing the total number of certified stations at SFHS-East down to 69.

The Sullivan Clinic occupies space in the basement of the Sullivan Building and is the only tenant in the otherwise empty building. Due to maintenance issues and accessibility challenges, the Sullivan Building no longer has the capacity to adequately provide a satisfactory treatment environment for LDH's patients in the long term. In recent months, Sullivan Clinic patients have faced a series of challenges such as locked doors, a broken elevator and other accessibility issues. SFHS has recently re-acquired the hospital and other buildings at SFHS-East, and plans a substantial overhaul in connection with determining the future best use of the building. The building renovations, which are scheduled to begin in the near future, are, at a minimum, expected to complicate access for patients of the Sullivan Clinic in the near to medium term.

Uncertainty over SFHS' long term plans for the SFHS-East campus and the need for extensive renovation and modernization of the campus buildings make any expansion of the SFHS-East dialysis center impractical at this time.

Accordingly, LDH seeks to establish the new dialysis center both to improve access to dialysis services for its patients who reside in the Salt Lake, Moanalua, Pearl City, Aiea, Waipahu and Kapolei communities and to accommodate patients who are expected to be displaced from the SFHS-East dialysis center during building renovations.

a) Relationship to the State of Hawai'i Health Services and Facilities Plan.

The State of Hawaii Health Services and Facilities Plan ("HSFP") states that prior to the establishment of a new chronic renal dialysis service, the minimum annual utilization for each provider in the service area should be 600 treatments per unit, and the utilization of the new service should be projected to meet the minimum utilization rate by the third year of operation.

Current utilization of Oahu's dialysis centers is shown in Table 1 below:

Location	Number of Stations	Total Treatments/	Treatments/ Station/
		Year	Year
DSI Kapolei	24	22,174	924
DSI Pearlridge	48	52,776	1100
LDH Waipahu	24	23,297	971
DSI Wahiawa	24	20,148	840
DSI Kapahulu	24	14,736	614
DSI Honolulu	48	36,691	764
DSI Aloha	20	17,242	862
DSI Windward	24	17,362	723
DSI Koolau	24	12,802	533
LDH Waianae	20	12,605	630
LDH Leeward	24	22,231	926
LDH SFHS-East	69*	43,337	628
LDH Kaimuki	24	18,871	786
LDH Kailua	12	5,191	433

Table 1.

Utilization at the majority of these facilities well exceeds the 600 treatments/station/year threshold level for new services established by the HSFP. The primary service area ("PSA") of the Proposed Project is the Salt Lake/Moanalua/Pearl City/Aiea/Waipahu and Kapolei area. The two dialysis centers that do not satisfy the HSFP threshold utilization levels are located in Windward Oahu and are too far distant from the PSA to be effectively accessible to its residents, because dialysis patients must typically receive treatments, which range from 3 to 5 hours in length, at least 3 times each week. Travel is sometime difficult for dialysis patients, who often do not drive themselves and must arrange for transportation to their treatments. Accordingly, lengthy travel times between home and dialysis facilities sometimes discourage dialysis patients from complying with their treatment regimens.

As shown by in Table 2 below, the Proposed Project is expected to meet the threshold level by the end of its third year of operation:

^{*} Takes into account 5 stations in Renal Annex that are not accessible and that are expected to be de-certified.

¹ In March 2008, SHPDA issued CON No. 07-33A, which was acquired by DSI when it purchase the dialysis clinics formerly owned by Fresenius Medical Care, for construction of a 24-station dialysis facility at 94-862 Kahuailani Street in Waipahu. According to the application, this facility was scheduled to open in late August 2008. However, this proposed facility is not yet operational.

Year	Number of Treatments	Treatments/Station
1	13,000	542
2	13,800	575
3	14,400	600

Table 2.

The Proposed Project will advance the Statewide Health Coordinating Council ("SHCC") priorities of ensuring maintenance of overall access to quality health care at a reasonable cost and striving for equitable access to health care services by providing LDH's patients residing in the PSA improved access to dialysis services closer to their homes. LDH has determined that about 30% of the patients now receiving treatment at the SFHS-East dialysis center reside in the PSA. The Proposed Project will be approximately eight miles (a 15-minute drive) closer to these patients' homes than the SFHS-East dialysis center where they now receive services. Transfer of these patients to the new facility will also provide LDH the flexibility it needs to ensure that patients residing closest to SFHS-East can continue to receive treatment there during the period when renovation of the Sullivan Building requires closure of the Sullivan Clinic. By maintaining and improving access, this proposal will encourage patients to comply with their dialysis treatment schedules and, thereby, lower health care costs associated with poor compliance. This will advance the SHCC priorities of ensuring maintenance of overall access to quality health care at a reasonable cost and striving for equitable access to health care services.

The Proposed Project will also advance the Honolulu Subarea Council ("SAC") priorities of increasing the availability of supportive services to help maintain quality of life and controlling escalating costs in the senior care industry. End Stage Renal Disease ("ESRD") frequently develops secondary to diabetes mellitus ("diabetes"), with the highest prevalence rate among individuals between 55 - 64 years of age. Diabetes Prevalence by Age Group (2010), Hawaii Behavioral Risk Factor Surveillance System, Hawaii Department of Health. associated with dialysis are minimal compared with the costs of emergency medical care and/or hospitalizations due to complications from ESRD that can result from noncompliance with prescribed dialysis treatment regimens. Additionally, complications from ESRD frequently make it difficult for seniors to continue to live in their homes and necessitate costly nursing home care. By improving access to a dialysis center, the Proposed Project will assist seniors with ESRD to comply with their dialysis treatment schedules and help maintain their quality of life. It will also help individuals avoid nursing home care and reduce the financial and social costs of ESRD for them, their families and the community. This will advance the Honolulu SAC priority of increasing the availability of supportive services to help maintain quality of life and controlling escalating costs in the senior care industry.

The Proposed Project will advance the West Oahu Subarea Council ("West Oahu SAC") priority of improving and increasing access to specialty care, specifically dialysis services. It will also advance West Oahu SAC's priorities by improving education and increasing preventive health effort for persons suffering from end stage renal disease through LDH's initiatives to educate its patients about how better to manage their disease and thereby prevent or delay the onset of more serious health problems.

b) Need and Accessibility

The Proposed Project is needed to provide improved access to dialysis services to individuals residing in central and west Oahu. Additionally, the new facility will allow LDH flexibility in meeting the needs of patients now being treated at the SFHS-East dialysis center

during upcoming renovations on the SFHS-East campus. LDH has determined that about 30% of the patients receiving treatment at the SFHS-East dialysis centers reside in the PSA and will experience improved access to their dialysis treatment at the proposed new site. This will allow SFHS-East patients living in downtown Honolulu and other locations close to the SFHS-East dialysis center to continue to receive treatment in that location when the Sullivan clinic must be taken out of service for remodeling.

Moreover, as shown in Table 1, above, all of the dialysis centers in close proximity to the Proposed Project are operating well above the HSFP threshold for new dialysis service. Accordingly, there is substantial need for the project in the PSA.

Although the proposed dialysis center is primarily intended to meet the needs of the Salt Lake, Moanalua, Pearl City, Aiea, Waipahu and Kapolei communities, LDH will make its services available to all Oahu residents, including low income individuals, racial and ethnic minorities, individuals with disabilities, the elderly and other medically underserved groups. In addition, LDH will maintain its commitment to provide charity care to those otherwise unable to afford dialysis treatment. The location is on several major transportation routes, has ample parking, and is easily accessible by public transportation.

c) Quality of Service/Care

LDH provides the highest quality of dialysis services to its patients and is in full compliance with all applicable federal and state regulations at all of its dialysis centers in Hawaii. LDH will continue to provide the same high quality care to its patients at the relocated Sullivan Clinic.

LDH's clinics are CMS certified and observe the standards set by both the CDC and CMS in their operations. LDH's quality improvement program was developed in accordance with CMS and the National Kidney Foundation's Disease Outcomes Quality Initiative ("KDOQI") guidelines. In keeping with the LDH Dialysis Quality Improvement Program, each facility monitors the quality of care in the following areas: anemia management, bone management, adequacy of dialysis, patient satisfaction, and technical management.

LDH maintains the following ratio of clinical staff to patients at all of its facilities:

Charge Nurse (RN)

Patient Care Technicians

Registered Dietician

Social Worker

1.0 FTE per 12 patients
1.0 FTE per 4 patients
1.0 FTE per 120 patients
1.0 FTE per 140 patients

A registered nurse will be on duty at all times the facility is open and will be assisted by patient care technicians as patient volume requires.

All LDH nurses are licensed in Hawaii and all patient care technicians are nationally certified in compliance with CMS. All nurses and hemodialysis technicians must complete LDH's training program prior to being assigned patient care duties. All LDH patient care staff will participate in regular in-service training to maintain the highest quality of competency.

d) Cost and Finances (include revenue/cost projections for the first and third year of operation)

The total cost of the project is estimated at approximately \$ 3,321,993, which includes \$1,270,000 for construction costs, \$625,000 for equipment and \$1,426,993 for the site lease,

which will be paid over the life of the lease. The project will be financed through a committed working capital line. The table below summarizes projected revenues and costs for the first and third years of operation:

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$2,250,000	\$3,450,000
Operating Expenses		
Salaries and wages	\$990,000	\$1,325,000
Expenses	\$995,000	\$1,450,000
Depreciation	\$230,000	\$225,000
Total Expenses	\$2,215,000	\$300,000
Net Income (Loss) from Operations	\$35,000	\$450,000
Add Back: Depreciation	\$230,000	\$225,000
Excess (Deficit) Fund from Operations	\$265,000	\$675,000

e) Relationship to the existing health care system

The Proposed Project is needed to better meet the needs of patients now residing in the PSA and to accommodate patients now receiving treatment at the Sullivan Clinic while the building is under renovation. Moreover, all dialysis centers in the geographical areas surrounding the Proposed Project are operating well above threshold. Therefore, the Proposed Project should not have any significant impact on their operations. Accordingly, the Proposed Project is not expected to have any negative impact on other providers or the existing health care system.

f) Availability of Resources

There are no financial obstacles to this project. The Proposed Project will be paid for with cash reserves or through a committed working capital line, which Liberty has dedicated to this project.

LDH expects to assign staffing got the Proposed Project from its current pool of employees in addition to seeking new employees through local and national advertisements. LDH engages in extensive local recruitment and conducts in-house nurse and technician training programs to ensure that its personnel are qualified to provide high quality care to its dialysis patients. LDH has partnered with local educators to provide clinical training opportunities for new nurses and technicians. LDH has also expanded its in-house training efforts and has increased recruitment of local dialysis nurses and technicians in order to maintain a consistent supply of qualified personnel to provide patient care in its dialysis facilities.

10.		y to file for Administrative Review. This project is eligible to file for ative review because: (Check all applicable)
		It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
		It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
		It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.
		It is a change of ownership, where the change is from one entity to another substantially related entity.
	_ <u>X</u>	It is an additional location of an existing service or facility.
	<u>X</u>	The applicant believes it will not have a significant impact on the health care system.